

AMENDED IN ASSEMBLY JUNE 28, 2011

AMENDED IN ASSEMBLY JUNE 16, 2011

AMENDED IN SENATE APRIL 25, 2011

AMENDED IN SENATE APRIL 14, 2011

AMENDED IN SENATE APRIL 4, 2011

SENATE BILL

No. 599

Introduced by Senator Kehoe

(Coauthors: Senators Calderon, Lieu, Lowenthal, and Price)

February 17, 2011

An act to amend Section 10170 of the Insurance Code, relating to life insurance.

LEGISLATIVE COUNSEL'S DIGEST

SB 599, as amended, Kehoe. Life insurance: retained-asset account.

Existing law provides that life insurance may be made payable, among other things, on the death of the insured, on his or her surviving for a specified period of time, or periodically as long as he or she lives.

This bill would require that all life insurance benefits be paid in the form of a lump-sum payment to the beneficiary or by another settlement option that is clearly described in the claim form. If the beneficiary does not choose one of the available settlement options, a retained-asset account would be authorized to be the default option only if the claim form provides a prominent disclosure, as prescribed, that in the absence of a choice by the beneficiary, payment of policy benefits would be made through establishment of a retained-asset account on the beneficiary's behalf. Any life insurance benefits settlement an insurer offers or recommends, other than for a lump-sum payment, would be

required to conform to specified conditions. The bill would authorize the Insurance Commissioner to adopt regulations specifying reasonable requirements for the form of agreements entered into and written disclosures provided by these provisions.

The bill would become operative if SB 713 of the 2011–12 Regular Session is enacted and becomes effective.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 10170 of the Insurance Code is amended
2 to read:
3 10170. Life insurance may be made payable as follows:
4 (a) On the death of the insured.
5 (b) On his or her surviving a specified period.
6 (c) Periodically as long as he or she lives.
7 (d) Otherwise contingently on the continuance or determination
8 of life.
9 (e) Upon those terms and conditions and subject to those
10 restrictions as to revocation by the policyholder and control by
11 beneficiaries as shall have been agreed to in writing by the insurer
12 and the policyholder. If no terms and conditions have been agreed
13 to by the insurer and the policyholder during the insured's lifetime
14 then upon those terms and conditions and subject to those
15 restrictions as may be agreed to in writing by the insurer and the
16 beneficiaries. Any agreement may be rescinded or amended by
17 the parties to the agreement without the consent of any designated
18 beneficiary unless the rights of any beneficiary have been expressly
19 declared to be irrevocable. No agreement hereafter made shall vest
20 in the insurer discretion as to the conditions, time, amount, manner,
21 or method of payment. The relationship between the insurer and
22 the policyholder or beneficiaries under any agreement shall be that
23 of debtor and creditor, and the insurer shall not be required to
24 segregate funds so held but shall hold them as a part of its general
25 corporate assets.
26 (f) Notwithstanding subdivision (e), all life insurance benefits
27 shall be paid in the form of a lump-sum payment to the beneficiary
28 or by another settlement option that is clearly described in the
29 claim form. If the beneficiary is provided settlement options in

1 addition to a lump-sum payment or if a settlement option is selected
2 by the policyholder, the beneficiary shall have the option to choose
3 how benefits are to be paid to the beneficiary. If the beneficiary
4 does not choose one of the available settlement options, a
5 retained-asset account may be the default option only if the claim
6 form provides a prominent disclosure that, in the absence of a
7 choice by the beneficiary, payment of policy benefits shall be made
8 through establishment of a retained-asset account on the
9 beneficiary's behalf. This disclosure shall be provided in the
10 portion of the claim form where the beneficiary is offered the
11 ability to select his or her choice of payment method and shall be
12 in easy-to-understand language and in bold and at least 12-point
13 font type. In all such cases, whether by beneficiary choice or
14 default, the insurer shall provide to the beneficiary the disclosure
15 provided for in Section 10509.937.

16 (1) If an insurer offers an option or recommends the option to
17 a policyholder of an individual or group life insurance policy that
18 the beneficiary receive life insurance proceeds in the form of a
19 retained-asset account or any arrangement other than a lump-sum
20 payment, the insurer shall provide the policyholder, at the time the
21 offer or recommendation is made, written information describing
22 each of the settlement options available under the policy and
23 specific details relevant to those options. If an insurer offers or
24 recommends to a beneficiary that the beneficiary receive life
25 insurance proceeds in the form of a retained-asset account or any
26 arrangement other than a lump-sum payment in advance of the
27 time the claim is made, the insurer shall provide the beneficiary
28 written information describing each of the settlement options
29 available under the policy and specific details relevant to those
30 options. If an insurer offers or recommends to a beneficiary that
31 the beneficiary receive life insurance proceeds in the form of a
32 retained-asset account at the time a claim is being made, the insurer
33 shall comply with the procedures set forth in Article 11
34 (commencing with Section 10509.930) of Chapter 5.

35 (2) For purposes of this subdivision, the following terms have
36 the following meanings:

37 (A) "Lump-sum payment" means a single payment made directly
38 to the beneficiary that satisfies all of the benefits owed to the
39 beneficiary.

1 (B) “Retained-asset account” means any mechanism whereby
2 the settlement of proceeds payable under a life insurance policy
3 is accomplished by the insurer, or an entity acting on behalf of the
4 insurer, by depositing those proceeds into an account with check
5 or draft writing privileges, and where those proceeds are retained
6 by the insurer pursuant to a supplemental contract not involving
7 annuity benefits.

8 (g) An insurer that fails to conform to the requirements provided
9 under this section shall be subject to Article 6.5 (commencing with
10 Section 790) of Chapter 1 of Part 2 of Division 1.

11 (h) The commissioner may, from time to time and after notice
12 and public hearing, adopt regulations specifying reasonable
13 requirements for the form of agreements entered into and written
14 disclosures provided pursuant to subdivisions (e) and (f), and for
15 compliance with Section 10172.5.

16 *SEC. 2. This act shall only become operative if Senate Bill 713*
17 *of the 2011–12 Regular Session of the Legislature is enacted and*
18 *becomes effective.*